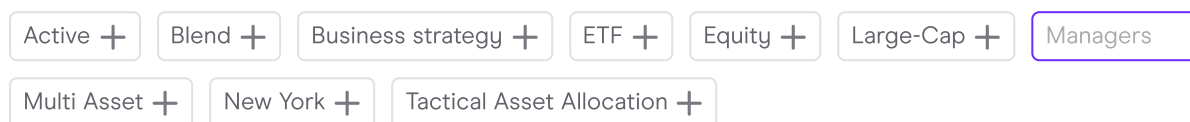


9 OCT 2023 Jennifer Grybowski

AXS makes boutique pick-up, looks to move into SMAs

Firm acquires boutique Knowledge Leaders Capital, fund duo

Follow:



AXS Investments has acquired yet another boutique manager, this time nabbing a firm that has experience in running SMAs to help with a future build out.

The \$1.6bn New York-based firm will acquire Knowledge Leaders Capital (KLC), including several key members of the KLC team and its two actively-managed funds, the \$131m Knowledge Leaders Developed World ETF (KLDW) and the \$38m KL Allocation Fund (GAVIX).

“The SMA business is one that we’re looking to move into, as we’ve found that advisers and investors like more customization,” AXS CEO Greg Bassuk said, noting models were another place the firm is focusing.

CEO Steven Vanelli founded Gavekal Capital in 2006, which was rebranded to Knowledge Leaders Capital in 2017.

KLC’s main tenet is that highly innovative companies generate excess returns and invests in what it calls “Knowledge Leaders,” or companies that possess intangible capital as a result of their history of investing in knowledge-intensive activities like R&D, brand development and employee education.

Both the funds transferring over have been in outflows over the past year, together shedding \$34m, according to Morningstar Direct.

The ETF will remain as a standalone alternative equity exposure product while the mutual fund will be absorbed by the existing \$56m AXS Astoria Inflation Sensitive ETF (PPI), AXS’s only existing allocation strategy.

PPI carries a negative Morningstar rating and has seen outflows of \$6m over the past year along with trailing returns of 7.5%, ranking it in the second quartile of Morningstar’s global allocation category.

KLC's allocation fund, launched in September 2010, also carries a negative rating, which analysts owe to a weak long-term risk-adjusted performance. It has seen trailing returns of 1.9% over one year and -4.9% over three years, ranking it in the third and bottom quartiles, respectively, of Morningstar's tactical allocation category.

The developed world ETF, launched in July 2015, carries a neutral rating thanks to what analysts call "unimpressive" long-term risk-adjusted performance. It has seen trailing returns of 14% over one year and 1.2% over three years, ranking it in the third and bottom quartiles, respectively, of Morningstar's global large-stock blend category.

Vanelli, who currently serves as sole PM for both funds, will move over to AXS and continue to manage the two funds, joining the existing PPI management team.

Several other KLC members are expected to join up with AXS, although plans haven't yet been finalized.

"Because we're in growth mode, building out in certain functional areas separately from this acquisition, what's great is we can bring some of the folks on board along with their funds and it's a good opportunity," Bassuk said.

Continued M&A, product dev, distro updates

AXS has been busy executing its M&A strategy, completing three ETF lift-outs over the past year, including a fund from digital manager Esoterica, the HYLD ETF and ACM's only two funds, and the firm shows no signs of slowing down.

"We've really been doubling down on the acquisition component of our business and we remain very focused on M&A," Bassuk said, adding the firm has both significant capital and an experienced M&A team to efficiently execute deals. "We believe there are a lot of strategies and managers that have been doing really well but have hit their ceiling on the ability to really grow and scale and that's where we think we can be a real value add."

Bassak is also on the hunt for new subadviser relationships. Specifically, the firm sees opportunities in taking over the retail product innovation and marketing for 40-Act funds run by institutional-centric managers, as well as the daily admin tasks for managers who want to run strategies but don't want to run a business.

The firm has closed a raft of funds throughout the past year, including a trio of ETFs, alt growth fund, several single-stock ETFs, and a thematic duo, however, product development remains continuous, with the firm next focusing on differentiated exposures within the SMA wrapper.

KLC also has two SMAs, the \$139m Knowledge Leaders Global Equity Strategy and the \$49m Knowledge Leaders Global Allocation Strategy, but they are not included in the acquisition.

The firm hired Macquarie distro pro Brett Write as head of distribution in April and since then has increased its investments in data, tech and a full digital marketing build-out. That digital marketing effort has become a key pillar of the firm's distro strategy as it migrates away from only wholesaling.
